

P-442, 443, 444, 421, 333/NA-84-212 REQUIRING FILING OF COST ALLOCATION MANUAL,  
FINANCIAL DATA, AND REPORT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Patrice Vick	Commissioner

In the Matter of a Consolidated Proceeding to  
Investigate the Provision of Intrastate Intercity  
Telecommunications Services Within the  
State of Minnesota

ISSUE DATE: May 25, 1990

DOCKET NO. P-442, 443, 444, 421, 333/NA-  
84-212

ORDER REQUIRING FILING OF COST  
ALLOCATION MANUAL, FINANCIAL  
DATA, AND REPORT

PROCEDURAL HISTORY

On July 28, 1987, the Commission issued its ORDER REJECTING NORTHWESTERN BELL TELEPHONE COMPANY PLAN AND REQUIRING ADDITIONAL FILING in the above-entitled matter. In that Order the Commission rejected Northwestern Bell Telephone Company's proposed methodology for allocating costs between its local service and intraLATA toll service offerings. The Order also required the Company to file a copy of the cost allocation manual it was preparing for the Federal Communications Commission, to assist the Commission in examining cost allocation issues in the future. That manual was to include a methodology for allocating costs on a fully distributed basis.

On November 20, 1989, the Commission issued a notice requesting comments on the effect of subsequent amendments to Minnesota's telecommunications statutes, particularly amendments to Minn. Stat. § 237.62 (Supp. 1989), on this filing requirement.

Northwestern Bell Telephone Company (Northwestern Bell or the Company) and the Residential Utilities Division of the Office of the Attorney General (RUD-OAG) filed comments arguing that the 1989 amendments to Minn. Stat. § 237.62 (Supp. 1989), which allow a combined revenue requirement for noncompetitive and emergingly competitive services and require embedded direct cost and incremental cost studies to support prices for competitive services, eliminated the need for the fully distributed cost study required under the July 1987 Order.

The Department of Public Service (the Department) filed comments urging the Commission to continue to require the filing. The Department stated that the approved cost manual and accompanying financial data could be useful in determining actual costs for specific services, thereby helping prevent cross-subsidization of competitive services by noncompetitive services.

The matter came before the Commission on May 10, 1990.

### FINDINGS AND CONCLUSIONS

The Commission agrees with the Department that the Company should continue to be required to file the cost allocation manual updates.

The Company and the RUD-OAG correctly note that the Commission's July 1987 Order spoke of the need for the manual to assist in determining the Company's revenue requirement, and that the 1989 amendments to Minn. Stat. § 237.62 eliminated the need for fully distributed cost studies in establishing revenue requirements, at least for competitive services. If the manual's only value lay in determining revenue requirements, it might no longer be necessary for it to be filed.

In fact, however, the manual may be useful in other ways, particularly in examining the cost basis of rates for individual services. Avoiding cross-subsidization continues to be an important statutory goal:

A telephone company may not subsidize its competitive services from its noncompetitive services through allocations of costs, cost-sharing agreements, or other means, direct or indirect. When an investment is for both noncompetitive and competitive services, the company shall demonstrate that its proposed methods of cost recovery between competitive and noncompetitive services are reasonable. If the commission determines that the methods chosen by the company are not reasonable, the commission may order changes in the methods used and make necessary adjustments in rates being charged to reflect the changes.

Minn. Stat. § 237.62, subd. 2 (Supp. 1989).

The cost allocation manual may be useful to the Commission in fulfilling its statutory duty to examine the reasonableness of the Company's cost allocation procedures and proposed methods of cost recovery.

The Commission will therefore require the Company to file the cost manual updates and to file with the Commission the financial data for calendar years 1988 and 1989 which it has filed with the Federal Communications Commission. The Commission will direct the Department to examine the filing and to file a report and recommendation, including its assessment of the manual's usefulness as a regulatory tool for this Commission.

## ORDER

1. Until further Order, the Company shall continue to file with this Commission all updates to the cost allocation manual which it files with the Federal Communications Commission.
2. Within 30 days of the date of this Order, the Company shall file the 1988 and 1989 financial data it filed with the Federal Communications Commission under that agency's cost allocation reporting requirements.
3. Within 90 days of the Company's filing, the Department of Public Service shall file its report and recommendation, including an assessment of the manual's usefulness as a regulatory tool for this Commission.
4. Within 15 days of the filing of the Department's report, any party wishing to file comments on the report shall do so.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

(S E A L)